LONGVIEW STRATEGIES

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Corporate Responsibility: Respond Don't React

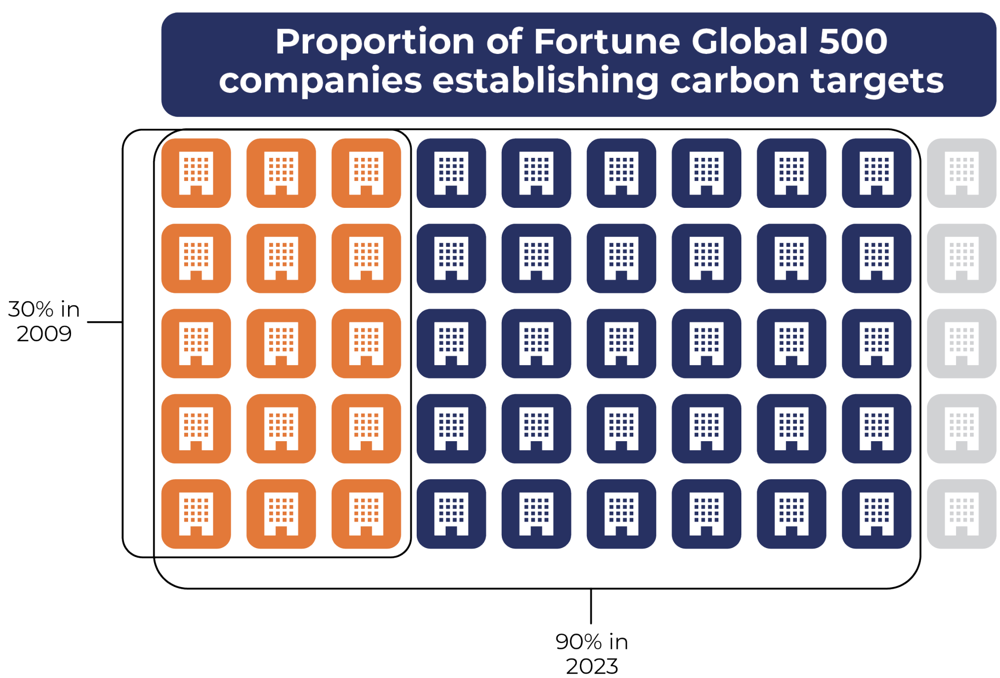
Why fragmented sustainability programs are costing companies time and money

When corporate sustainability programs and reporting become priorities, teams often feel they're entangled in a classic case of "building the airplane while it's in the air." With no formal strategy or program, internal teams scramble to meet discrete requests as one-off demands emerge. The results serve as a band aid, but lead teams in the wrong direction when it comes to the big picture.

No doubt, the path forward is not clear and simple. Regulations vary from region to region, standards and frameworks are constantly evolving, and different industries prioritize different levels of engagement.

That will likely change in the coming years. Indeed, international standards are in the early stages of harmonization, and the SEC's ruling regarding companies' detailed disclosure of climate-related risks and opportunities is imminent.

Even if that is delayed, the drumbeat for increased transparency will continue. Eighty-nine percent of companies surveyed about the SEC's pending rule are already reporting some level of ESG data. Ninety percent of the Fortune Global 500 now establishing carbon emission targets, a substantial increase from 30 percent in 2009. The number of public companies publishing corporate sustainability reports has also set the pace, surging from less than 20 in the early 1990s to more than 92 percent of the S&P 500 today.



Despite these trends, there remains a temptation for companies new to formal sustainability disclosure and reporting to delay, delay, delay. But the longer these organizations wait, the more difficult the challenge becomes. Along the way, they develop individual pieces of reporting and communications – a specific policy required for an RFP here, a standalone carbon assessment there – and a patchwork of unrelated materials begins to form.

Taking strategic action is the more effective path. There are four key considerations to creating a thoughtful, manageable approach to your sustainability program:

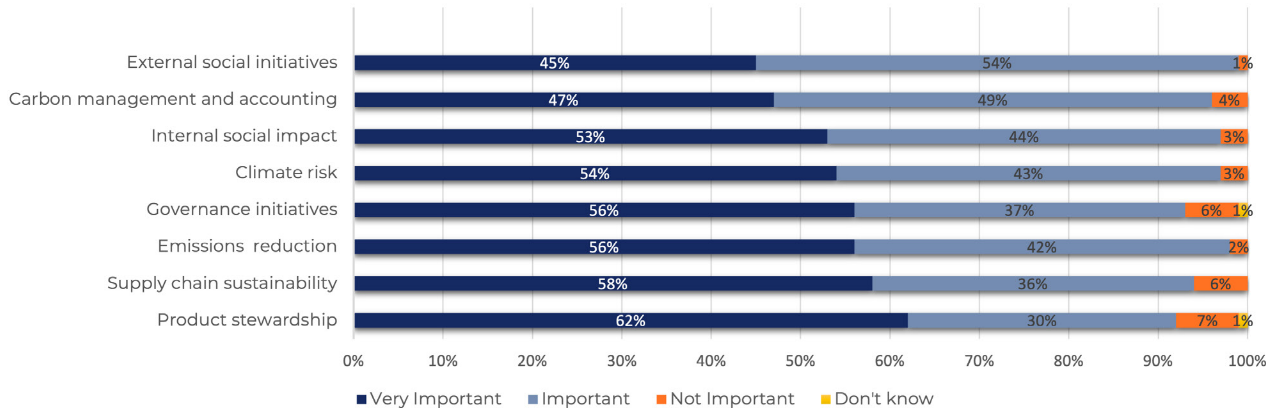
1. Clarify intent
2. Connect the dots
3. Craft a strategy
4. Compile resources

1. Clarify Intent

Why is the organization formalizing its sustainability and ESG efforts? Is it to satisfy customer demand? To prepare for forthcoming regulation? To create a stronger risk management environment? To improve business operations and the organization's impact within its ecosystem?

Knowing the "why" helps to organize the "what." A recent Nasdaq survey showed how wide the variance in foci can be: when asked to rank the importance of ESG and sustainability themes, most respondents noted almost all listed issues as important or very important. From product stewardship and supply chain to climate risk and internal social impact, every element is seen as critical.

How important to your business are the following ESG and sustainability themes?



Source: Nasdaq 2023 ESG & Climate Survey

With such a sprawling landscape of priorities, it can be tempting to attack needs based on perceived urgency. That fragmented 'fire drill approach, however, doesn't fulfill compliance obligations, fails to satisfy the needs of internal and external stakeholders, and leads to costly rework.

With clear intentions, it becomes easier to determine goals and milestones, such as:

- Reporting to a specific framework
- Adopting commitments of an industry group
- Proactively building a comprehensive program with measurable impact

And while the full breadth of the sustainability program should be approached strategically, not everything needs to be tackled at once. Prioritize issues, initiatives, and data management. Then start with the most material issues and work through items over time. And don't hesitate to share the ups and downs; reporting on both successes and setbacks is the exact type of transparency that stakeholders are looking for.

2. Connect the Dots

Whether pressure is coming from customers, shareholders, employees, or all of the above, there are common threads across requests. If you and your organization are new to corporate sustainability, it can be easy to overlook how actions to satisfy one request can also fulfill other disclosure requirements if done correctly.

For example, there has been a dramatic increase in RFPs mandating verified SBTi GHG reduction targets, as well as policies relating to DE&I and human rights. Some of these demands are tied to other reporting standards, like the EU's European Sustainability Reporting Standards (ESRS) through the Corporate Sustainability Reporting Directive (CSRD). Complying with the larger regulatory standard will likely set a company up for future RFP requirements.

Likewise, shareholder advocacy demands may be satisfied by the same compliance initiative. ESG proposals continue to increase (don't be fooled by contradicting media reports). Support has waned slightly, but for good reason: the proposals are more specific, there are more of them, and in some cases, they are tempered out of respect for companies' genuine efforts to address ESG issues. Shareholder concerns can be addressed in advance with strategically sound sustainability disclosures.

Responding to these pressures can jolt a company into action, but that shouldn't set the direction or occur in a vacuum. Conducting a materiality assessment is crucial in this respect, and can shed light on what is most impactful to the business and its stakeholders. When you have a sense of the material issues, the path forward becomes much clearer. You can anticipate requests, select and align with a formal framework, and normalize a taxonomy, procedures, and processes for management and communication.

3. Craft a Strategy

You've assessed your motivation and long-term goals. You know the material issues. It's time to develop a strategy, just as you would with other major organizational initiatives.

Identify: Outline the primary ESG-related business challenge(s), the corresponding stakeholder interests, and relevant contextual factors.

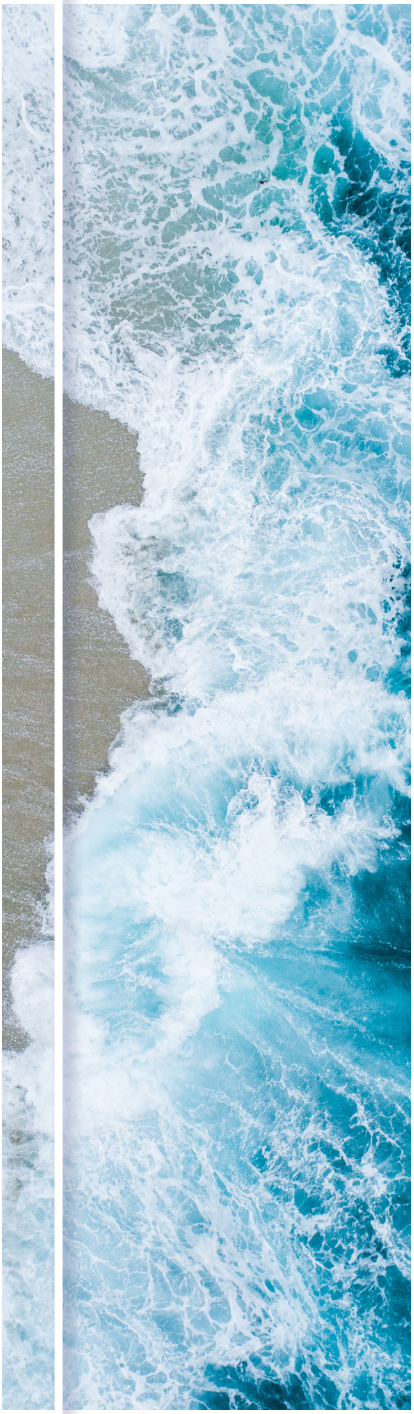
Activate: Engage relevant business units best positioned to address critical ESG business challenges, establish buy-in.

Implement: Evaluate available options, select the most effective initiatives to drive transformation, establish concrete roadmaps, and design processes and procedures to ensure successful rollout.

Report: Implement the plans, monitor progress, and effectively communicate both the actions taken and the achieved results.

Don't expect to tackle everything at once. This is a long-term proposition that rolls out in phases, and over time the initiatives and reporting become fully integrated components of the business. It takes proactivity, flexibility, and above all consistency to create a robust program.

4.Compile Resources



Organizations often underestimate the time and resources it takes to execute – and they are beginning to see that going it alone is not an option. Thirty-six percent of corporate leaders are not confident their company is staffed appropriately to address anticipated SEC disclosure requirements. Sixty-one percent expect to hire external consultants to support climate risk mitigation. And for those newer to ESG programs, 47 percent consider external reporting to be the most significant challenge.

Staffing to meet these needs is a consistent hurdle. Complicating matters, the global focus on sustainability has some vendors booked to capacity. Planning ahead will help ensure that companies have the right players in place to meet their timeline. Experts in carbon accounting, strategic planning, reporting and communications may all need to be retained as part of the effort.

Organizations must determine where the gaps lie in internal resources and assemble teams that can assess the current state, develop a strategy, and capitalize on wins both near- and long-term. Finance departments should be shown the direct line between sustainability efforts and business success; the investment in “doing it right” is substantial, whereas delays or avoidance will ultimately make the effort more costly and cumbersome.

Achieving Better Outcomes

While standards and frameworks are still evolving, the endgame is quite clear. ESG disclosures are here to stay, and compliance requirements will increase. Regardless of whether the SEC's climate rule coincides with the decisions of the IFRS or European Financial Reporting Advisory Group (EFRAG), the interconnectedness of the global economy and supply chains almost makes it irrelevant. Companies will have to formalize sustainability programs and disclose ESG issues in order to conduct business.

You wouldn't launch a new product without a plan. Or expand to a new market. Or make a major acquisition. Sustainability is no different: it's a significant organizational undertaking with long-term implications. Just as with other initiatives, stepping back to understand the goals, requirements, timelines, and investments is a natural path to better outcomes.

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